Colorado Water Conservation Board
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TO: Colorado Water Conservation Board Members

FROM: Ryan Edwards, P.E., Project Manager
Kirk Russell, P.E., Chief
Finance & Administration Section

DATE: November 5, 2012

SUBJECT: **Agenda Item 15b, November 13-14, 2012 Board Meeting**
Finance - Change to Existing Loan
McDonald Ditch Company – McDonald Ditch Diversion and Headgate Replacement Project

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Introduction

The McDonald Ditch Company (Company) is requesting a partial change of collateral for the $70,000 CWCB loan (contract number C150334, not yet executed), approved in May 2012, for the McDonald Ditch Diversion and Headgate Replacement Project (Project). The Project includes the replacement of the existing diversion structure and headgate. The total cost for the Project is estimated to be $650,000.

Staff Recommendation

Staff recommends the Board approve the request to change collateral from the Company's water rights, to the Project itself (diversion dam and headgate), for the McDonald Ditch Diversion and Headgate Replacement Project.

Background and Current Project Status

The Company was originally approved for the $70,000 loan with a pledge of collateral that includes its water rights. The Company estimates the water rights pledged are valued in excess of $500,000, over collateralizing the loan by several times. For this reason the Company is requesting the water rights portion of the collateral be exchanged for the Project itself, which would include the new diversion dam and headgate.

McDonald Ditch Company

The Company diverts water from the Rio Grande at the Sevenmile Plaza Bridge, located five miles north and seven miles west of the town of Monte Vista. The irrigation system is approximately 2.5 miles long and services eight shareholders, totaling 14.4 shares, for purposes of irrigating approximately 1,320 acres. The Company is governed by a three-member board of directors responsible for managing the operation and maintenance responsibilities of the ditch, and has the authority to restrict water deliveries on delinquent shares. Shareholder approval is required for assessment increases and for the Company to take on debt.

Financial Analysis
The Company qualifies for an agricultural interest rate of 2.50% for a 20-year term (reduced from a 2.75% agricultural rate for a 30-year term). Table 1 provides a summary of the financial criteria of the loan request.

TABLE 1: PROJECT FINANCIAL SUMMARY

Total Project Cost	$650,000
Additional Funding Sources	$580,000
WSRA Grant	*$160,000*
EQIP (from NRCS)	*$150,000*
CPP (from NRCS)	*$50,000*
CCPI (from NRCS)	*$200,000*
SLVREC	*$ 20,000*
CWCB Loan Amount	$70,000
CWCB Loan Amount (including 1% Service Fee)	$700
CWCB Annual Loan Payment	$4,535
CWCB Loan Obligation (including 10% debt reserve funding)	$4,989
Number of Shares	14.4
Current Assessment (per Share)	$500
Annual Cost of Project (per Share)	$346

CWCB will disburse funds at a rate of no greater than 90% of invoice amount for construction activities related to the Project, up to the approved limit of $70,000.

Creditworthiness:
The Company generates revenue from annual shareholder assessments, currently set at $500 per share. The Company has no outstanding debt and a high ratio, relative to other irrigation ditch companies, of cash reserves to current expenses. The majority of the current assessments are used to cover diversion and headgate maintenance and bolster cash reserves in anticipation of this Project. This project is expected to significantly reduce annual maintenance expenses; thereby, strengthening the Company's ability to cover the CWCB debt obligation with minimal impact on current assessment rates. Table 2 provides a summary of the financial ratios of the loan request.

TABLE 2: FINANCIAL RATIOS

Financial Ratio	**2010 - 2011**	**Future w/ Project**
Operating Ratio (operating revenues/operating expenses) weak: <100% - average: 100% - 120% - strong: >120%	110% (average) $8.7K/$7.9K	106% (average) $13.7K/$12.9K[1]
Debt Service Coverage Ratio (total eligible revenues-operating expenses)/total debt service weak: <100% - average: 100% - 120% - strong: >120%	No Current Debt	116% (average) ($13.7K-$7.9K)/$5.0K
Cash Reserves to Current Expenses weak: <50% - average: 50% - 100% - strong: >100%	176% (strong) $13.9K/$7.9K	108% (strong) $13.9K/$12.9K
Annual Operating Cost per Acre-Foot (based on 5,018 AF) weak: >$20 - average: $10 - $20 - strong: <$10	$1.58 (strong) $7.9K/5,018 AF	$2.58 (strong) $12.9K/5,018 AF

[1] *The future operating ratio with Project includes a $346/share assessment increase; however, it is anticipated that assessment increases, if needed, will be significantly lower based on a reduction of annual maintenance expenses.*

Collateral: As security for the loan, the Company will pledge its assessment revenues backed by a rate covenant and the Project itself (diversion dam and headgate). This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: James Hart, President, McDonald Ditch Company
Susan Schneider, AGO
Peter Johnson, AGO